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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 001872

SIPDIS

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SUBJECT: KMT CHAIRMAN ON SPECIAL BUDGET AND PRC TRIP

REF: A. SECSTATE 71311
 B. TAIPEI 00118
 C. TAIPEI 01684

Classified By: AIT Director Douglas Paal, Reason(s): 1.4 (B/D)

¶1. (C) Summary: KMT Chairman Lien Chan told the AIT Director on April 21 that the KMT's support for passage of the Special Defense Budget at a reduced funding level remained unchanged from what he pledged to the Director during their January 12 meeting. Lien said, however, that all negotiations between the political parties on the Special Budget have stopped because of the current tense political atmosphere in Taiwan. Regarding his upcoming visit to the PRC, Lien insisted that his sole purpose is to improve cross-Straight relations, reduce tensions, and promote peace. He said that he will seek to establish a mechanism to promote economic cooperation as well as future talks. He rejected press reports speculating that he intended to strike a deal with Beijing to the detriment of Taiwan. Lamenting the DPP attacks on his upcoming visit, Lien said he was not hopeful that Chen Shui-bian would follow up on any opportunities for progress that his visit might create. End Summary.

KMT Stance on Special Budget Unchanged

¶2. (C) In an April 20 meeting with KMT Chairman Lien Chan, the AIT Director delivered points outlined in Ref A. Lien told the Director that the KMT position on the Special Defense Budget remained unchanged from what he pledged to the Director during their January 12 meeting (Ref B). Lien said, however, that all negotiations between the political parties on the Special Budget have stopped because of the current harsh political atmosphere in Taiwan. He attributed the contentious relationship between the KMT and DPP to the Chen's administration's April 5 "Seven Points" statement (Ref C), as well as the government's efforts to prosecute KMT Vice Chairman Chiang Pin-kun after his return from the PRC in late March. Lien dismissed the Democratic Progressive Party (DPP) government's reduced price figures for the Special Budget, claiming that they are largely based on the appreciation of the Taiwan dollar against the USD and not the sort of meaningful reductions for which the KMT has asked. The KMT, he said, intends to continue negotiating the overall cost of the package.

¶3. (C) In response to the Director's question on how the KMT would respond should the PRC press the KMT to retract its support for the Special Budget in return for concessions by Beijing, Lien said that he did not think the PRC would raise the Special Budget during his visit. He added, "if they do, I would ask them to remove the missiles targeted at Taiwan."

Upcoming PRC Visit

¶4. (C) Following the KMT's April 20 announcement of the details of Lien's April 26 to May 3 PRC trip (Septel), Lien told the Director that the PRC had long ago indicated its interest in inviting him and, thus, he was ready accept when PRC official Jia Qinglin extended the formal invitation during KMT Vice Chairman Chiang Pin-kun's visit. He explained that the purpose of his visit was simple -- to improve cross-Straight relations, reduce tensions, and promote peace. He insisted the KMT cross-Straight policy has remained unchanged -- maintain the status quo, safeguard the "Republic of China," and put aside political differences while promoting engagement on common economic interests.

¶5. (C) During the upcoming visit, Lien said, he specifically hoped to establish a mechanism to promote economic cooperation. He said he will propose actions that the PRC can take unilaterally to help Taiwan businessmen in China as well as initiate discussions on direct links, tariff privileges, easing personnel and capital movement between Taiwan and China, increasing information and technology exchange, and perhaps even establishing a common currency. Lien conceded that he would not accomplish all of these goals in one visit but hoped to start discussion that could be followed up in the future.

¶6. (C) Responding to the Director's suggestion that Lien reach out to Chen Shui-bian before and after his trip, Lien

told the Director that KMT Secretary General Lin Fong-cheng is scheduled to talk to Presidential Office Secretary General Yu Shyi-kun on April 21. Lien said that in addition to the economic discussions he also hoped his trip would encourage continuing dialogue not just between the KMT and the PRC but also between the Taiwan government and the PRC. However, Lien said he is not hopeful that the DPP will follow up on either his political or economic discussions. Lien said that he was disappointed with Chen Shui-bian's "very negative" response to the KMT efforts to promote cross-Straits cooperation. Saying that he does not understand why the DPP behaves in the way it does, Lien lamented the unhelpfulness of DPP's "Seven Points" and other recent statements criticizing his upcoming trip. Lien also rejected press reports speculating that the KMT might strike a deal with Beijing to the detriment of Taiwan.

¶7. (C) When asked about the recent PRC invitation to People First Party (PFP) Chairman James Soong, Lien replied that he did not know why the invitation was extended, adding that this development is "a little confusing." Lien asserted that Soong had sent emissaries to Beijing to beg for the invitation. He dismissed the significance of Soong's trip and said the "Ten Points" reached by Soong and Chen during their February 24 meeting were repetitions of the KMT's position. Lien concluded by urging the USG to take a positive attitude toward his PRC trip and publicly voice support for any effort to reduce cross-Straits tensions.

Comment: Encouraging Tone, Vague on the Details

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¶8. (C) Lien's reiteration of his earlier promises to take action on the Special Budget and to establish contacts with the Chen administration on his upcoming PRC visit are encouraging. However, it is unclear how engaged Lien is on the details of the Special Budget or any other major policy issue, including the KMT's cross-Straits initiatives. Given the increasing factionalization within the KMT, Lien will need to demonstrate leadership after his return from Beijing if there is any hope of breaking the ongoing political deadlock in the LY.

PAAL